NDD-21 ELIMINATE NEW LENDING OR INCREASE HOMEOWNERS' PAYMENTS UNDER RURAL HOUSING LOAN PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Eliminate New Lending						
Budget Authority	1,050	1,250	1,200	1,100	1,050	5,650
Outlays	1,000	1,200	1,200	1,200	1,200	5,800
Increase Homeowners' Payments						
Budget Authority	-15	-35	95	95	85	230
Outlays	35	75	120	160	210	600

The Section 502 housing program, administered by the Farmers Home Administration (FmHA), currently provides mortgages at effective interest rates as low as 1 percent to enable low-income borrowers to purchase homes while spending only 20 percent of their incomes on mortgage payments, property taxes, and insurance. The FmHA's major cost is the difference between the rates it pays for the funds it borrows to finance the program and the rates borrowers pay for FmHA mortgages. During 1985, over 40,000 rural households purchased single-family homes with reduced-interest-rate loans from the FmHA. Two approaches for reducing federal costs under this program are described here.

Eliminate New Lending. If new lending under the Section 502 program were eliminated, no new households would receive the deep subsidies that are now provided to only a small proportion of all eligible households. Some critics argue that a program that makes such sizable payments to so few households is not the best use of scarce federal resources. On the other hand, this approach would do away with a major tool that has enabled some low-income rural households to become homeowners. Ending new lending would reduce federal outlays by about $1.0 billion in 1987 and $5.8 billion in the 1987-1991 period.

Increase Borrowers' Payments. This alternative would continue lending at the present volume, but raise the costs to new borrowers. If, beginning in

1987, new FmHA borrowers paid 28 percent of their incomes for housing costs--the rate now charged under a comparable Department of Housing and Urban Development (HUD) program--federal outlays would be cut by $35 million in 1987 and $0.6 billion over the next five years. Thus, this option would eliminate a disparity between the HUD and the FmHA programs and scale back the size of the subsidy that is provided to only a small proportion of all eligible households. On the other hand, increasing the percentage of income that rural households would pay toward housing costs could shift the composition of borrowers away from the very lowest-income households, who might not apply for Section 502 loans if they felt that their monthly incomes could not support both higher loan payments and other living expenses. In addition, such higher housing costs relative to income might lead to higher default rates among new program participants.

The Administration's budget proposes to terminate this program in 1987 and to rely exclusively on rental assistance provided by HUD.

NDD-22 IMPOSE A ONE-YEAR MORATORIUM ON NEW FUNDING FOR THE RURAL RENTAL ASSISTANCE PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	55	30	-15	-20	-60	-10
Outlays	50	390	120	30	-20	570

The Section 515 program, administered by the Farmers Home Administration (FmHA), currently provides developers of multifamily rental projects in rural areas with 50-year mortgages with interest credits that reduce their effective interest rates to 1 percent. These reduced-rate mortgages in turn lower rental costs for Section 515 tenants, who are a small proportion of all eligible households in rural areas. Under current rules, assisted tenants contribute toward their housing expenses the greater of 30 percent of their adjusted incomes or the minimum project rent, which includes the costs of amortizing the 1 percent mortgage plus project operating expenses. The developer keeps the minimum rent, and the FmHA collects any payments above this minimum and treats them as additional interest payments to reduce total program costs. During 1985, about $900 million in new Section 515 loans were made, sufficient to finance about 25,700 new rental units.

A moratorium on new lending under this program would eliminate for one year the deep subsidies currently provided to developers of rural rental projects and to their tenants. Such a moratorium on the construction of new projects would reduce federal outlays by about $50 million in 1987 and $570 million in the 1987-1991 period, while precluding the provision of rental units for about 19,000 households.

Under the Section 515 program, the average annual subsidy for newly assisted households exceeds $2,000. Some critics argue that making such sizable payments to so few tenants is not the best use of scarce federal resources in times of budgetary stringency. On the other hand, imposing a moratorium on new funding under the Section 515 program even for a year would probably lessen the supply of standard-quality low-income rental projects in rural areas.

The Administration's budget would terminate this program in 1987 and provide rural rental assistance through housing vouchers administered by the Department of Housing and Urban Development.

NDD-23 REDUCE SUBSIDIES FOR LOW-INCOME ASSISTED HOUSING

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Moratorium on Additional Commitments						
Budget Authority	7,700	0	0	0	0	7,700
Outlays	160	460	690	850	930	3,100
One-Year Freeze of Rents						
Budget Authority	200	210	220	230	240	1,100
Outlays	290	310	350	390	420	1,750

NOTE: The savings estimate for the moratorium includes savings from rescission of balances of 1986 appropriations unobligated as of June 1, 1986. The savings estimates from the two options are not additive. Adoption of both would generate lower total savings than the sum of the two parts.

Each year, the federal government makes new 5- to 30-year commitments under the Section 8 and public housing programs to provide rent subsidies for an additional number of low-income households, augmenting those already receiving aid. The amount of additional assistance is determined by the Congress. By the end of fiscal year 1985, about 4.2 million subsidy commitments were outstanding for all rental programs combined, and about 3.7 million households actually received rental aid. Outlays for all assisted rental housing under these programs totaled $9.7 billion by the end of 1985. Even if no net additional commitments are made after 1986, expenditures will rise to over $12.5 billion by 1991. This increase takes place because some outstanding commitments have not yet resulted in households actually being assisted and because subsidies per household increase annually as a result of inflation in rents. If new commitments are funded in 1987 and thereafter at the same rate as is assumed in CBO's baseline projection for 1986, the total number of assistance commitments would grow by over 500,000 through 1991, and outlays would increase to almost $14.5 billion.

Moratorium on Additional Commitments. Appreciable savings could be realized by halting all commitments to assist additional households between

June 1, 1986, and the end of fiscal year 1987, while keeping the level of funding for modernizing decaying public housing projects constant. Thus, all 1986 unobligated balances would be rescinded, except for modernization funds, and no new budget authority would be needed for these programs in 1987. This option would generate reductions in outlays of $160 million in 1987 and $3.1 billion over the 1987-1991 period, relative to the baseline, with additional savings continuing to accrue for up to 25 years more, when all contracts associated with 1986 and 1987 budget authority would have expired. Greater savings could be realized if the moratorium were extended for more than one year.

Proponents of this option argue that expansion of rental assistance programs would be inappropriate at present in the light of cutbacks in other areas. They further note that the total number of income-eligible households served by rental assistance programs would continue to grow anyway, even during the pause in program expansion, because of commitments that have already been funded but have not yet resulted in occupied units. Others contend, however, that annual net increments in assisted rental housing have already been decreased sharply during this decade--from around 188,000 in 1980 to 99,000 in 1986--and that fewer than 35 percent of all eligible households are served by current programs.

<u>One-Year Freeze of Rents</u>. The Section 8 rental assistance program for existing housing, administered by the Department of Housing and Urban Development (HUD), aids renters by paying to the landlord the difference between 30 percent of the tenant's adjusted income and the unit's rent. Recipients of Section 8 existing-housing certificates must occupy units whose initial rents are at or below Fair Market Rents (FMRs) established by HUD. Under current Section 8 policy, FMRs as well as rents for units that are already subsidized are changed annually to reflect rental inflation. In contrast, under a recently enacted voucher program, HUD pays the landlord the difference between 30 percent of the tenant's income and the voucher payment standard--roughly equivalent to the FMR. Thus, voucher recipients are allowed to occupy units with rents above the voucher payment standard, provided that they pay the difference. The voucher payment standard for new commitments is adjusted annually, while the standard for outstanding commitments is adjusted at most twice during the five-year contract period.

Freezing FMRs, rents for units that are already subsidized, and voucher payment standards for one year at the 1986 levels would save $290 million in 1987. If no catch-up adjustments were made in 1988, savings would total $1.7 billion over the five-year period, with additional savings in subsidy payments continuing over the lives of the contracts.

Proponents of this option point out that it would spread the impact of the federal spending reduction across all current and new participants in these programs, whereas the moratorium would target all the loss toward potential new participants. On the other hand, this option would generate a variety of problems for certain subgroups of assisted households. In the Section 8 existing-housing program, unless landlords absorbed the decrease in real rents, some households with certificates issued in 1987 and beyond might be unable to find units within the rent guidelines. In addition, households that had been participating in the program might face a decrease in the level of services provided by the landlord, or, if their landlords dropped out of the program, a choice between moving to a new unit or losing their subsidy. A freeze on the voucher payment standard would not necessarily limit the number of units available to voucher recipients, but it might force some households to pay more than 30 percent of their income for housing.

The Administration's budget for assisted housing proposes no new funding for 1987; a freeze on FMRs, unit rents, and voucher payment standards; and substantial rescissions of unobligated 1986 balances. Moreover, it would fund roughly the same number of additional households with the remaining 1986 budget authority, by converting from long-term contracts to five-year vouchers. Thus, outlay savings over the 1987-1991 period would be lower under the Administration's proposal than under the first option described above.

NDD-24 ELIMINATE OR RESTRICT ELIGIBILITY FOR COMMUNITY DEVELOPMENT BLOCK GRANTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Terminate CDBG						
Budget Authority	2,650	3,300	3,400	3,550	3,700	16,600
Outlays	50	1,050	2,650	3,300	3,450	10,450
Restrict Eligibility and Reduce Funding						
Budget Authority	430	450	470	490	510	2,350
Outlays	10	170	410	460	480	1,500

The Community Development Block Grant (CDBG) program provides annual grants, by formula, to all metropolitan cities and urban counties under its entitlement component. The program also allocates funds to each state, by formula, for competitive distribution among nonentitlement areas, which are generally units of local government under 50,000 in population that are not metropolitan cities or part of an urban county. The grants may be used for a wide range of community development activities, including housing rehabilitation, infrastructure improvements, and economic development.

For 1986, postsequestration appropriations for the CDBG program amount to almost $3 billion, of which the Administration proposes to defer $500 million to 1987. Of the remaining funds, $1.7 billion is allocated to metropolitan cities and urban counties and $0.7 billion to nonentitlement government units. Substantial federal savings could be realized in two ways: by terminating the CDBG program; or by both restricting eligibility for the entitlement component to exclude the least needy communities and reducing funding levels.

Terminate CDBG. If the CDBG program were eliminated entirely, federal outlay savings would amount to $50 million in 1987 and a total of $10.5 billion over the 1987-1991 period. Proponents of terminating the program contend that federal funds should be targeted to programs whose benefits are national in nature rather than to programs such as CDBG that generate primarily local benefits and should be funded by state and local governments. They further suggest that, to the extent that localities use CDBG funds to compete against each other to attract business, benefits have been shifted away from localities to firms.

On the other hand, opponents contend that many activities financed by CDBG are functions not generally undertaken by local governments--particularly the rehabilitation of low-income housing and, to some extent, economic development. Thus, eliminating this funding--the largest source of federal aid that many cities receive--would probably curtail these types of activities in many areas, and, in general, reduce resources benefiting low-income households. They further argue that CDBG has been figured into the budgets of all entitlement recipients, and ending that support could impose at least temporary stress on many governments, particularly in view of cutbacks in other federal assistance programs.

Restrict Eligibility and Reduce Funding for Entitlement Component. If the entitlement component were cut 20 percent by eliminating funding for the least needy communities, federal outlays could be reduced by $10 million in 1987 and $1.5 billion over the 1987-1991 period. Such a cutback would effectively change the distribution between the entitlement and nonentitlement components from 70 percent-30 percent to 65 percent-35 percent. The entitlement component of the CDBG program now provides aid regardless of need, although jurisdictions with scarce resources receive larger grants than other communities. Proponents of this option contend that no pressing interest is served by supporting jurisdictions that have above-average capacity to fund projects themselves. Eliminating funding for such communities rather than reducing grants across the board would ensure that the most distressed jurisdictions would retain the same level of aid.

On the other hand, CDBG funds in general must be used to aid low- and moderate-income households, to eliminate slums and blight, or to meet emergency needs. Thus, critics of this option argue that a reduction in federal funds for affluent communities would probably curtail such activities in pockets of poverty in those areas. The merit of such an argument would depend, among other things, on the share of funds affluent communities are now devoting to these types of activities.

The Administration's budget calls for a cutback in 1987 CDBG funding that is 18 percent greater than the cutback suggested in the second option described above. Moreover, the Administration's budget proposes changes in the allocation of funds that are similar to those outlined in the second option, but it does not call for elimination of funding for the least needy communities.

NDD-25 END FUNDING OF THE ECONOMIC DEVELOPMENT ADMINISTRATION AND URBAN DEVELOPMENT ACTION GRANTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
			Terminate EDA			
Budget Authority	130	220	230	240	250	1,100
Outlays	30	90	150	200	220	690
			Terminate UDAG			
Budget Authority	330	350	360	380	390	1,800
Outlays	20	110	210	280	340	970

NOTE: The savings estimates include savings from rescissions of fiscal year 1986 balances unobligated as of June 1, 1986.

The Economic Development Administration (EDA) provides grants to state and local governments for public works, technical assistance, and job programs, as well as loan guarantees and direct loans to firms for business development. In 1986, postsequestration appropriations for EDA programs totaled $176 million. For the Urban Development Action Grant (UDAG) program, administered by the Department of Housing and Urban Development, $316 million was appropriated (postsequestration) for 1986 for distribution to local governments through a competitive selection process. These governments use the funds, along with other resources, to finance economic revitalization projects. Federal spending for local economic development could be reduced by $50 million in 1987 and $1.66 billion over the 1987-1991 period by rescinding all EDA and UDAG 1986 budget authority unobligated as of June 1, 1986, coupled with disbanding the EDA and eliminating the UDAG program as of 1987.

Some critics of these programs contend that federal assistance should not be provided for activities whose benefits are local in nature and which, therefore, should be the responsibility of state and local governments. In addition, both programs have been criticized for the types of projects that they fund, for allowing federal dollars to be used for projects that would have been supported anyway, for not directing funds to the most distressed areas, for substituting public for private credit, and for facilitating relocation of businesses from one distressed area to another through competition among communities for federal funds. In particular, EDA has been criticized for its eligibility criteria, which qualify areas containing 80 percent of the U.S. population, and for providing aid with little proven effect at great expense compared with other programs with similar goals. While the UDAG program has more stringent eligibility standards and more evidence exists that completed projects are meeting investment and employment expectations, grants are often provided for projects in vital commercial centers where full conventional financing may have been available. Proponents of this option further argue that, because of the competitive nature of both programs, local governments would not have incorporated this type of aid into their budget plans, and thus, rescinding a portion of 1986 budget authority and eliminating future funding of EDA and UDAG would not impose unexpected hardships on communities.

On the other hand, the reduction in aid associated with this option would curtail economic development activities in some financially distressed communities that might not be able to tap other resources. This could result in deterioration of infrastructure, loss of prospective jobs, and decreases in local tax receipts. The elimination of these two sources of funds might have especially serious consequences for the most distressed communities, particularly in view of overall federal cutbacks in urban aid programs.

The Administration's budget proposes to terminate the EDA and UDAG programs and to rescind unobligated 1986 balances.

NDD-26 ELIMINATE FUNDING FOR UNTARGETED ELEMENTARY AND SECONDARY EDUCATION PROGRAMS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Eliminate Chapter 2 Block Grant						
Budget Authority	540	570	600	640	680	3,000
Outlays	45	410	560	600	630	2,250
Eliminate Untargeted Portion of Vocational Education						
Budget Authority	400	420	450	470	500	2,250
Outlays	10	320	420	440	470	1,650
Eliminate Mathematics and Science Education						
Budget Authority	45	50	50	55	60	260
Outlays	5	30	45	50	55	190

Most federal aid for elementary and secondary education is targeted toward students with special needs. Compensatory education (Chapter 1) funds, for example, are intended for low-achieving children in schools with many poor children. (Chapter 1 is part of the Education Consolidation and Improvement Act, or ECIA.) Federal funds also are provided to help educate handicapped children.

Substantial amounts of money, however, are spent on programs that are not targeted--in terms of federal requirements--toward students with special needs. Examples are the Chapter 2 block grant (of the ECIA), a portion of vocational education grants, and the mathematics and science education program. Ending funding for these three areas would reduce budget authority by about $1 billion in 1987--$540 million from the block grant, $400 million from the untargeted portion of vocational education, and $45 million from the mathematics and science program. Outlays would be reduced by $60 million in 1987 and $4.1 billion over the 1987-1991 period.

These changes would save substantial amounts of federal money while leaving intact federal aid specifically directed to students and school districts most in need of that assistance. Their effects on total spending for elementary and secondary education would also be small, for the reductions would constitute substantially less than 1 percent of total state, local, and federal expenditures. Moreover, since an unknown portion of these grants is used to support activities that districts would undertake even in their absence, elimination of the grants would affect the specific activities ostensibly funded by them less than the size of the grant might suggest.

On the other hand, this reduction could pose hardships for some jurisdictions, because it would come at a time of increasing enrollments. Moreover, these programs have purposes other than increasing services to students with special needs. For example, Chapter 2 block grant funds are intended to provide districts with relatively unrestricted funds for program innovations and improvements, and the goals of the program innovation portion of the vocational education program include helping districts alter their training programs as the skills needed for employment change. Terminating federal funds would require districts to rely on state and local resources for these purposes, and to the extent that the grants lead jurisdictions to provide services that they otherwise would not, these goals would be less well met as a result.

The Administration's budget proposes similar reductions in vocational education and elimination of the mathematics and science education program (the latter to be replaced by a new program of support for teacher training). The budget, however, proposes maintaining funding for the block grant at the 1986 presequestration level of $500 million.

NDD-27 INCREASE PELL GRANT TARGETING

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	360	380	410	430	460	2,050
Outlays	75	360	390	410	440	1,650

The Pell Grant program, which is the federal student aid program most focused on low-income students, provides grants to undergraduate students who attend school at least half time. The CBO estimates that fiscal year 1986 funding will support grants for almost 2.6 million students in the 1986-1987 school year. Grants will range between $200 and $2,100, averaging an estimated $1,300 per student. The CBO estimates that about 45 percent of this aid will go to dependent students--virtually all to students from families with incomes below $30,000, and 80 percent to students from families with incomes below $15,000. Students who are financially independent of their parents will receive the other 55 percent of the aid. Reducing federal funding for Pell Grants by 10 percent would lower federal budget authority by $2.1 billion during the 1987-1991 period.

This option could be implemented by simply cutting federal appropriations, or the cut could be combined with changes in the rules determining Pell Grant eligibility and awards. The number and types of students affected would depend on how the cuts were structured and on how institutions reacted to the reductions. If the current program rules were extended and the appropriation were reduced, the Secretary of Education could lower student awards so that estimated program costs would equal the level of appropriated funding. Although the Secretary has discretion on the particular formula used to reduce grants, he must use one that would protect the grants of the neediest recipients. Alternatively, the Congress could change the method of determining student eligibility. Options available to the Congress that would reduce aid for higher-income Pell Grant recipients while protecting awards for needier students include raising the minimum award, making the test for financial independence more stringent, and increasing the proportion of income that families would be expected to contribute to educational costs.

The possible changes discussed above would reduce federal costs while protecting the awards of the most needy recipients. By lowering or eliminating the grants of less needy students, such changes are unlikely to affect students' enrollment decisions. In addition, some colleges and universities would increase their support for student aid, thereby partially offsetting reductions in federal funding. Institutional responses would vary across types of institutions, however, with some colleges and universities continuing their current levels of student aid. Furthermore, the students who would lose aid under this option would generally have lower family incomes than many students who now receive other types of federal aid and would continue to do so, if the other student aid programs were unchanged.

The Administration's proposal would reduce Pell Grant funding substantially more than this cutback. Compared with the current program, the proposal would target aid more heavily toward lower-income recipients by, among other things, increasing expected family contributions to educational costs and making the test for financial independence more stringent.

NDD-28 REDUCE CAMPUS-BASED STUDENT AID

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	240	260	270	290	310	1,350
Outlays	25	240	260	270	290	1,100

The federal government provides campus-based student aid through three programs: College Work-Study (CW-S), National Direct Student Loans (NDSLs), and Supplemental Educational Opportunity Grants (SEOGs). Financial aid administrators at colleges and universities distribute these funds among eligible students. In the 1984-1985 school year, the federal government provided more than $1 billion of campus-based aid to more than 1 million students. Reducing federal funding for these programs by 20 percent would lower budget authority by $1.35 billion during the 1987-1991 period.

This option could be implemented by simply cutting federal appropriations, or the cut could be combined with a restructuring of the campus-based programs. The number and types of students affected would depend on how the cuts were structured and on how institutions and financial aid administrators reacted to the changes. Some institutions would continue their own student aid at existing funding levels, thereby having less financial aid available for students; other institutions might increase their own aid to offset part or all of the reductions in federal support.

Combining reduced funding with a restructuring of the campus-based programs could mitigate the effects of less aid. For example, the Congress could limit student eligibility. Because campus-based aid is not heavily targeted toward the lowest-income students, such changes would limit the adverse impact on the poorer students. On the other hand, such restrictions would reduce institutional discretion to adjust for students' special circumstances. A second option would consolidate the three campus-based programs into one block grant, thereby increasing administrators' discretion in allocating funds. Such an increase in discretion would probably not offset fully the effects of reduced funding, however, and could mean that federal goals were less well met. A third alternative would require institutions to provide a larger match of their own funds for each dollar received from the federal government. If institutions provided the increased match by raising their own support for student aid, the total amount of campus-based aid would continue at current levels, but some institutions probably would not do so.

The Administration's proposal would reduce funding for campus-based aid substantially more than this cutback. The proposal would combine the CW-S and SEOG programs, raise the institutional match for the consolidated program, and alter the NDSL program by increasing students' interest rates and by requiring income-contingent repayments.

NDD-29 REDUCE FUNDING FOR THE JOB TRAINING PARTNERSHIP ACT

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	420	590	770	960	1,170	3,910
Outlays	220	390	550	730	930	2,820

Titles II-A, II-B, and III of the Job Training Partnership Act of 1982 (JTPA) authorize grants to states to provide training services for economically disadvantaged individuals, summer jobs for disadvantaged youth, and employment and training assistance for dislocated workers, respectively. About $2.5 billion has been appropriated for grants for the program year that begins in July 1986. (An additional $800 million was appropriated for the Job Corps and other federally administered JTPA programs.) Rescinding 10 percent of 1986 budget authority for the JTPA grants to states and freezing the annual appropriation at the new level for the next five years would save about $2.8 billion in outlays over the 1987-1991 period. States could adjust by providing their own funds to maintain current services, by reducing the number of participants, or by limiting the services provided to participants.

Some contend that federally sponsored employment and training programs have had little, if any, effect on many participants' earnings. Others argue that one effect of such programs may be that employers substitute the participants for other workers and, therefore, these programs produce no net gain in employment. Further, some maintain that, in a period of overall federal budgetary restraint, states should pay for a larger share of the costs since they receive some of the benefits of having a better trained labor force.

On the other hand, opponents of reductions contend that these programs offer a means of increasing the earnings of disadvantaged and dislocated job seekers, thereby improving the well-being of the participants and their families and reducing future welfare and unemployment insurance costs. Even if total employment were not increased, it is argued, it might be desirable to redistribute job opportunities toward disadvantaged or dislocated workers. Moreover, federal resources for employment and training grants to states have already been cut substantially in recent years--from about $4 billion in 1981 (not including public service employment grants) to about $2.5 billion in 1986.

The Administration's budget also proposed reductions in JTPA budget authority. Its largest cuts, however, would be in the summer jobs and Job Corps programs.

NDD-30 MODIFY THE DAVIS-BACON ACT BY RAISING THE CONTRACT THRESHOLD AND ALLOWING UNRESTRICTED USE OF HELPERS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	590	620	640	670	700	3,220
Outlays	110	330	450	520	560	1,970

Since 1935 the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or assisted construction projects of $2,000 or more. Procedures for determining prevailing wages in the construction area and the classifications of workers receiving them sometimes favor union wage rates, although recent changes in regulations have lessened this effect. The act also restricts use of lower-wage, less-skilled workers, such as helpers. Under current regulations, separate wage determinations for helpers are usually not made, with the result that most workers on covered projects are paid journeymen's wages.

Federal outlays for construction could be reduced by raising the threshold for determining projects to be covered by Davis-Bacon, by allowing unrestricted use of helpers, or both. The specific option depicted in the table would raise the threshold from $2,000 to $40,000--the equivalent cutoff level for coverage of the $2,000 value in 1935--index the thresholds to account automatically for future inflation, and allow unrestricted use of helpers. These measures would reduce outlays by about $110 million in 1987 and by about $2 billion over the 1987-1991 period. (Raising the threshold to $1 million and allowing unrestricted use of helpers would reduce outlays over this five-year period by about $2.7 billion.)

Those in favor of relaxing Davis-Bacon standards contend that the act artificially drives up the cost of federal construction projects. Besides reducing outlays for construction, unrestricted use of helpers probably would increase employment levels for less-skilled workers on federal projects. Raising the threshold to $40,000 and indexing it would exclude about 3 percent of the value of all contracts currently covered by the act, whereas setting the threshold at $1 million would exclude 40 percent.